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STATE FOR SCA/INS AND EEB
USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENFELD/AADLER/CHINCKLEY
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA PASS FAS/OCRA/RADLER/BEAN/FERUS
EEB/CIP DAS GROSS, FSAEED, MSELINGER

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SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF MAY
4 TO MAY 8, 2009

REF: NEW DELHI 01832

¶1. (U) Below is a compilation of economic highlights from Embassy
New Delhi for the week of May 4-8, 2009, including the following:

- Indian IT Industry Reactions to U.S. Tax Plan
- Indo-Pak Border Trade Increases to About \$80M
- New Chief of National Aviation Company of India Limited (NACIL)
- Bhutan's Economic Ministry Pushes for WTO Membership

Indian IT Industry Reactions to U.S. Tax Plan

¶2. (U) Pursuant to the Obama Administration's plan to introduce a bill seeking to remove tax incentives for the overseas operations of U.S. companies, several India-based U.S. multinational firms and Indian outsourcing companies have expressed concerns. While Indian IT companies such as TCS, Wipro, and Infosys have stated they can cope with any of the changes currently envisioned for U.S. tax laws, large U.S. firms see the move as adversely impacting their expansion plans. Top U.S. firms, including Citigroup, derive nearly half of their revenues from foreign markets due to lower costs. However, the CEO of India's second-biggest software exporter Infosys, which serves customers such as American Express and Bank of America, has reportedly said that "Right now, we do not see any impact on our business". Despite this, President Obama's reference to Buffalo and Bangalore in his speech announcing the plan has reportedly caused some angst among Indian IT businesses. The Indian IT industry has been closely monitoring President Obama's approach on outsourcing and job losses in the U.S. since the time he began his presidential campaign.

¶3. (U) National Association of Software and Service Companies (NASSCOM) President Som Mittal stated in a media interview that the new tax plan has nothing to do with India in particular, but could marginally impact global companies in India which are subject to an Indian corporate tax rate of 33.9 percent, roughly equivalent to U.S. corporate tax rates. Commenting on the move, he further said "protectionism is always responded to by protectionism. The fact is that economies across the world, including the U.S., have gained enormously by reaching out to the markets outside, so, I think there will be lot of rhetoric on protectionism, but most of the Bills get diluted at the end."

Indo-Pak Border Trade Doubles to About \$80M

14. (U) Bilateral trade between India and Pakistan through the Attari-Wagah land route grew significantly in 2008-09, despite tension between the two countries following the Mumbai attacks in November 2008. According to the Indian Customs Department, total exports from India through the land route grew by 136 per cent to Rs 4.10 billion (approximately \$80 million) in 2008-09, compared with the 2007-08 level. Analysts attribute this surge in trade growth to the introduction of cross-border movement of commercial trucks since 2007. Nevertheless, the three-digit growth rate is also attributable to the base effect. India primarily exports potato, onion, tomato, garlic and maize through the Attari-Wagah border. Imports from Pakistan through the land route, however, grew only 2.5 per cent to Rs 0.54 billion by the end of 2008-09 (approximately \$11 million).

15. (U) In 2007, India and Pakistan started cross border movement of trucks after a gap of 60 years from the Attari border crossing near Amritsar. Prior to 2007, trucks were only allowed up to the border, from where porters had to carry the cargo across on foot to trucks waiting on the other side. While the road trade has more than doubled, rail-based trade has slightly improved in 2008-09 compared to the previous year. India used railcars to export dyes, soybean, and tires worth Rs 8.92 billion (\$182 million) in 2008-09 and imported cement and dry fruits through trains worth Rs 0.46 billion (\$9 million) in 2008-09 compared to Rs 0.45 billion in the previous year.

16. (U) Traders envisage greater trade volumes if more barriers are lifted. According to some Indian traders, a dedicated cargo lane as well as an increased time window for clearing goods could push up business volume. The Attari-Wagah check post only allows movement of vehicles until 2PM every day in order to prepare for the daily

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border ceremony in the evening. Traders also mention the lack of warehouses and other infrastructure as barriers to trade growth in the region.

17. (U) Separately, local media reported on the May 6 signing of the Pakistan-Afghanistan Agreement on Transit Trade in Washington. Trade analysts expect it could potentially benefit India in exporting goods to Afghanistan via the Attari-Khyber Pass land route, which passes through Pakistan. However, Indian media were quick to cite a remark by a Pakistan foreign ministry spokesperson in Islamabad reportedly stating that any agreement to allow Indian goods through this route would have to be "separate".

New Chief of National Aviation
Company of India Limited (NACIL)

18. (U) On May 4, Arvind Jadhav became the Chairman and Managing Director of NACIL, replacing Raghu Menon, for a term of three years.

NACIL is the holding company which oversees the merged Air India and Indian Airlines' operations. Jadhav belongs to the 1978 group of Indian Administrative Service (IAS) officers from the state of Karnataka. In his previous assignment, as the principal secretary of the infrastructure development department in the Karnataka state government, he was instrumental in introducing the public-private partnership (PPP) model to develop the Bangalore International Airport, Ltd.

19. (U) The change in leadership of NACIL comes in the wake of Air India's loss of market share to private carriers like Jet Airways, Kingfisher and others, as well as mounting losses, including \$800 million in 2008-09. Former Chairman Menon was also criticized for not handling the numerous merger challenges of Air India and Indian Airlines. Despite these problems, Air India is going through a major fleet expansion program and plans to add 111 new Boeing and Airbus aircraft over the next few years. To finance this fleet expansion, NACIL has also requested \$500 million in the form of equity and soft loans from the GOI.

Bhutan's Economic Ministry Pushes
for WTO Membership

10. (U) The Bhutanese Ministry of Economic Affairs has reportedly submitted a proposal to the Prime Minister and Cabinet advocating

for Bhutan to complete its membership process for joining the WTO. (Note: The Government of Bhutan requested WTO membership in 1999. End note.) According to Bhutanese media, the report asserts the country should join the WTO now while the organization's environment is more open and friendly to the needs of least developed countries as a result of the Doha round. The report suggests Bhutan could accede by the end of 2009 or early 2010 and that further delay in the process may damage the country's reputation as a committed and serious negotiator. If Bhutan continues to postpone the accession process, the report argued it may also face more demanding terms to join at a later date. The report also asserts that joining the WTO would complement Gross National Happiness (GNH) and not have any adverse impact on the Bhutanese agricultural sector since the country maintains high duties on agricultural imports. Markets would likewise avoid a flood of consumer goods due to high duties and the absence of any form of internal VAT tax. (Note: Although Bhutan would receive certain exemptions as a less developed country, WTO membership requires conformity to certain levels of industrial tariffs that are likely to be lower in some instances than their current tariff structure. End note.)

¶11. (SBU) Econoff spoke with Tenxin Rondel Wangchuk, Counselor at the Bhutanese Embassy in New Delhi, regarding the media report. Wangchuk also thought that it would make more sense for Bhutan to accede while conditions appear favorable, since there otherwise is no strong incentive to join the WTO. The report will be circulated for input from the Center for Bhutan Studies and the GNH Commission (formerly the Bhutan Planning Commission) before the Cabinet will come to a decision. Wangchuk opined that Bhutan would eventually have to join the WTO, but unless the report pushes the government to

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proceed, he felt moving forward with the accession process still required a compelling new reason. Comment: Wangchuk's response suggests there is lingering ambivalence in the government regarding the net benefits to be gained from WTO membership. See ref tel for more. End comment.

¶12. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>.

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